CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 13, 1999

H.R. 1027
Copyright Compulsory License Improvement Act

As ordered reported by the House Committee on the Judiciary on March 24, 1999

SUMMARY

H.R. 1027 would allow satellite carriers (companies that use satellite transmissions to provide television signals directly to consumers) to retransmit the signals of local television broadcast stations into the local markets of those stations. The bill would allow a local broadcast station to require, by January 1, 2002, satellite carriers that serve customers in its market to transmit its signal. However, the bill would prevent satellite carriers from transmitting signals of distant networks into markets in which another satellite carrier transmits signals of local affiliates. In addition, the bill would eliminate a 90-day waiting period for households that switch from cable to satellite service, and would make other changes to telecommunications and copyright law.

Under the Satellite Home Viewer Act of 1988 (Public Law 100-667), satellite carriers pay a monthly royalty fee for each subscriber to the U.S. Copyright Office for the right to retransmit distant network and superstation signals by satellite to subscribers for private home viewing. The Copyright Office later distributes the fees to those who own copyrights on the material retransmitted by satellite. The bill would extend the requirement that satellite carriers pay royalty fees to the federal government through December 31, 2004. Beginning July 1, 1999, the bill would reduce the current royalty fees charged to superstations by 30 percent, to $0.19 per subscriber per channel per month, and the fees paid by network stations by 45 percent to $0.15.

CBO estimates that enacting H.R. 1027 would result in a net increase in revenues of $449 million over the 2000-2004 period and of $68 million in fiscal year 2005. After review by an arbitration panel, royalty fees are paid to copyright owners, along with accrued interest earnings. With higher royalty collections, the payments to copyright holders would also be higher under H.R. 1027, by an estimated $148 million over the 2000-2004 period, and by another $401 million over the following five years. Because H.R. 1027 would affect both revenues and direct spending, it would be subject to pay-as-you-go procedures. Assuming appropriation of the necessary amounts, CBO also estimates that complying with the

provisions of the bill would cost the Federal Communications Commission (FCC) and the Copyright Office about $2 million in 2000 and less than $500,000 in each subsequent year.

H.R. 1027 would impose both intergovernmental and private-sector mandates, as defined by the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the cost of the mandates would not exceed the thresholds established by UMRA ($50 million in 1996, adjusted for inflation, for intergovernmental entities and $100 million in 1996, adjusted for inflation, for the private sector).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1027 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
REVENUES AND DIRECT SPENDING [a]						
Receipts and Spending Under Current Law						
Estimated Revenues[b]	244	185	118	112	107	101
Estimated Budget Authority[c]	272	281	219	142	131	121
Estimated Outlays	209	207	259	264	220	182
Proposed Changes						
Estimated Revenues	0	18	89	101	114	127
Estimated Budget Authority	0	19	94	111	127	142
Estimated Outlays	0	0	4	19	35	90
Net Increase in the Surplus	0	18	85	82	79	37
Receipts and Spending Under H.R. 1027						
Estimated Revenues[b]	244	203	207	213	221	228
Estimated Budget Authority[c]	272	300	313	253	258	263
Estimated Outlays	209	207	263	283	255	272

a. In addition to the effects shown in the table, H.R. 1027 would increase spending subject to appropriation by about $2 million in 2000 and by less than $500,000 in each subsequent year.
b. Includes royalty fee collections from cable television stations, satellite carriers, and digital audio devices.
c. Payments to copyright owners include interest earnings on securities held by the Copyright Office.

BASIS OF ESTIMATE

H.R. 1027 would allow a satellite carrier to make secondary transmissions of local television broadcasts under specific conditions, eliminate the waiting period for switching from cable to satellite service, reduce the rates of copyright royalty fees, and extend those fees through December 31, 2004. All of these provisions would affect payments by satellite carriers to the federal government and payments by the federal government to copyright holders. CBO assumes that payments from the federal government to copyright holders for satellite transmissions would follow historical patterns. Assuming enactment of the bill before the end of fiscal year 1999, CBO estimates that H.R. 1027 would increase revenues by $449 million and increase spending by $148 million over the 2000-2004 period.

Secondary Transmissions

H.R. 1027 would allow satellite carriers to retransmit the signals of local television broadcast stations into the local markets of those stations. The bill also would eliminate a provision of current law that requires households to wait 90 days between ending cable service and beginning satellite service. These provisions would make the services provided by satellite carriers more attractive. As a result, CBO expects that the number of subscribers to satellite services would increase more rapidly than under current law. Based on information from the Copyright Office, CBO estimates that under H.R. 1027 the annual change in the volume of satellite services would increase from a projected rate of 10 percent a year to 15 percent in 2000.

In addition, H.R. 1027 would allow a local broadcast station to require, by January 1, 2002, satellite carriers that serve customers in its market to transmit its signal. The bill also would prevent satellite carriers from transmitting signals of distant networks into markets in which another satellite carrier transmits signals of local affiliates. These provisions would reduce revenues from fees in two ways. First, satellite carriers might enter new markets more slowly as they grapple with the technical difficulty of carrying hundreds of local signals. Second, satellite carriers would provide subscribers with fewer distant network signals and more signals of local broadcast stations. Under the bill, satellite carriers would not pay the royalty fee for local broadcast stations.

CBO estimates that the annual growth in fee volume would gradually decrease from the projected rate of 15 percent in 2000 to about 11 percent by 2004. Because the bill's provisions could increase the incentives for choosing satellite service over cable service, they might lead to a loss in revenues from cable fees. However, based on information from the Copyright Office and the cable and satellite industries, CBO estimates that any such reduction in revenues would not be significant.

H.R. 1027 would require the FCC to issue regulations within 180 days of enactment. Until the FCC issues regulations, H.R. 1027 would allow a few satellite carriers to continue to transmit signals of distant networks to certain households, even though such transmissions violate copyright law. Based on the number of households and network signals that would be affected, CBO estimates that this provision would increase royalty fees by about $2 million in 2000.

Reduction in the Copyright Royalty Fee

A rule issued on October 28, 1997, by the Librarian of Congress, increased the royalty fee to $0.27 per subscriber per month. H.R. 1027 would reduce the royalty fee for superstations by 30 percent to $0.19 per subscriber per channel per month and the fee for on network stations by 45 percent to $0.15, effective July 1, 1999. Based on information from the Copyright Office, CBO estimates that this provision would reduce revenues by $25 million in fiscal year 2000, when the fees would expire under current law. But this reduction would be more than offset by extending the copyright royalty fees through 2004.

Extension of Copyright Royalty Fees

Under current law, the royalty fees for satellite carriers expire on December 31, 1999. H.R. 1027 would extend royalty fees through December 31, 2004, increasing both revenue from satellite carriers and payments to copyright holders (including interest) during the 2000-2004 period. In fiscal year 2000, the net change in estimated revenues would be relatively small—$18 million—because the additional revenue from extending the fees ($41 million) and the additional $2 million in royalty fees cited above would be partially offset by a reduction in fee payments due early in the year under current law. By 2004, CBO expects additional revenues to total $127 million because of the fee extension.

Payments to Copyright Holders

H.R. 1027 would result in additional spending because all revenues are eventually paid to copyright holders with interest. Historical spending patterns indicate that copyright holders may receive the fees and interest up to 10 years after the Copyright Office has collected the revenues. Thus, CBO estimates a significant lag between changes in revenues and the eventual changes in outlays that stem from copyright fees.

Discretionary Spending

H.R. 1027 would require the FCC to issue regulations and resolve certain disputes concerning technical and business relationships between satellite carriers and local broadcast stations. Based on information from the FCC, CBO estimates that implementing H.R. 1027 would cost the commission about $1 million in 2000 and less than $500,000 in each subsequent year, subject to the availability of appropriated funds.

H.R. 1027 would require the Copyright Office and the FCC to report on the technical limitations and economic incentives of the requirements to carry local television broadcast signals, with special attention to small and rural markets. Based on information from the Copyright Office, CBO estimates that preparing the report would cost $500,000 to $1 million in 2000, subject to the availability of appropriated funds.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	0	4	19	35	90	101	101	108	69	22
Changes in receipts	0	18	89	101	114	127	68	0	0	0	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1027 would impose both intergovernmental and private-sector mandates, as defined by UMRA. The cost of the intergovernmental mandate would be insignificant and would not exceed the threshold established by UMRA ($50 million in 1996, adjusted for inflation). The cost of the private-sector mandates imposed on satellite carriers and network broadcast stations would not exceed the annual threshold for private-sector mandates ($100 million in 1996, adjusted for inflation).

Section 5 would impose a mandate on the Public Broadcasting Service (PBS) by requiring it to certify annually to the Copyright Office whether its member stations support the retransmission of PBS national satellite feed. This requirement would be both an intergovernmental and a private-sector mandate because PBS is owned and operated by local noncommercial television stations that include both publicly- and privately-owned stations. Based on information from PBS, CBO estimates that the cost to comply would be insignificant because PBS regularly surveys its members for other purposes and could easily incorporate those new requirements into existing surveys.

Section 2 would require satellite carriers to submit a list to network stations of their subscribers who receive retransmissions of signals within those stations' local markets. Currently, the satellite carriers provide such lists to the four networks, and the networks then send them to the network stations. This mandate would require that the satellite carriers submit the list directly to the network stations. CBO estimates that the satellite carriers would incur additional administrative costs but they would likely be small.

Sections 6 and 10 together would prohibit a satellite carrier from providing a distant network signal to certain subscribers in television markets in which another satellite carrier is providing two or more local broadcast signals. The prohibition would affect subscribers who cannot receive over-the-air signals. It would be a mandate as defined in UMRA, but CBO estimates that the direct costs of this provision to satellite carriers would be small.

Section 10 would require that both satellite carriers and network television stations maintain a publicly available file of subscribers who can legally receive a network signal different from the local network broadcast. CBO estimates that the additional costs to satellite carriers and network television stations would be small.

An additional economic effect of this bill (not associated with a federal mandate) would result from changes to the royalty fees paid by satellite carriers to copyright holders, including some state and local government entities. The bill would reduce the fees from current levels and extend them through 2004 (under current law, these fees are set to expire at the end of 1999). If the current arrangement for collecting royalties were to expire, satellite owners would have to reach agreement with each copyright owner, which could be difficult and expensive.

PREVIOUS CBO ESTIMATES

On March 8, 1999, CBO transmitted a cost estimate for S. 247, the Satellite Home Viewers Improvements Act, as ordered reported by the Senate Committee on the Judiciary on February 25, 1999. That bill also would reduce the royalty fee and extend the requirement that satellite carriers pay royalty fees until December 31, 2004. On April 7, 1999, CBO transmitted an estimate for H.R. 851, the Satellite Competition and Consumer Protection Act, as ordered reported by the House Committee on Commerce on March 24, 1999. That bill would reduce the royalty fee and permanently extend the requirement that satellite carriers pay royalty fees. However, neither S. 247 nor H.R. 851 would prevent a satellite carrier from transmitting the signals of a distant network affiliate into a market that had another satellite carrier providing local signals. Thus, CBO estimated that under those bills the federal government would receive more royalty fees for distant network signals than under H.R. 1027.

On April 12, 1999, CBO transmitted a cost estimate for S. 303, the Satellite Television Act of 1999, as ordered reported by the Senate Committee on Commerce on March 10, 1999. That bill would delay until December 31, 1999, the requirement that a certain satellite carrier terminate its transmission of signals of distant networks to about two million households, but the bill would not extend the copyright royalty fees beyond 1999.

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